• endless energy annual report 1998 •

legend

three	president's message
four	property location maps
seven	the auditors' report
eight	financial statements

president's message

April 19, 1999

Endless Energy Corp. began its operations in 1998 with the purchase of $2.2 million of properties, spread from Medicine Hat, Alberta to Northeastern British Columbia. This major transaction transformed our listing from a Junior Capital Pool to a full listing on the Alberta Stock Exchange. Revenues increased to over $1 million from $4,539 for the previous year, or $0.23 per share. Cash flow from operations was over $950,000, or $0.21 per share. This compares to a 1997 start-up loss of $94,793. Net earnings increased to $349,000, or $0.08 per share. Shareholders' equity increased 320% to $1.36 million in 1998, compared to $425,207 in 1997. The Company ended the year at 55 BOE per day, comprising 93% natural gas and 7% oil. The undeveloped land holdings comprise over 50,000 gross acres and 10,000 net acres, with a market value of over $650,000. At year-end, Endless Energy has proven and probable oil and gas reserves of over four billion cubic feet valued at $3,300,000, discounted at 15%, or $0.66 per share.

During 1998 the Company drilled two dry holes: one with gas shows near Peace River, Alberta and the other just outside Edmonton. Further work will be conducted in the Peace River area where the Company earned access to a large seismic database.

The first quarter of 1999 brought the Company negative news in that drilling by another company on our Helmet, British Columbia property (one of our royalty lands) was postponed because of concurrent economic conditions. In addition, our Venus well dropped substantially in production. However, Endless Energy Corporation has enough assets and projects moving forward to offset these negative events.

In the Petroleum Industry, the year 1998 could be summarized as a wave of pessimistic forecasts, layoffs, ceiling test write-downs and a general lack of interest in the junior oils sector. However, as we entered 1999, there was a faint but growing optimism that oil and gas companies were probably reaching the bottom of the cycle. Now the fundamentals for oil prices have improved. One only needs to look at the natural gas supply and demand picture to see that prices should remain firm with potential for additional upside. A small oil and gas company like Endless Energy and its shareholders can capitalize on this future growth potential with its land base, realistic debt-to-revenue ratio, ongoing exploration potential, and experienced management group.

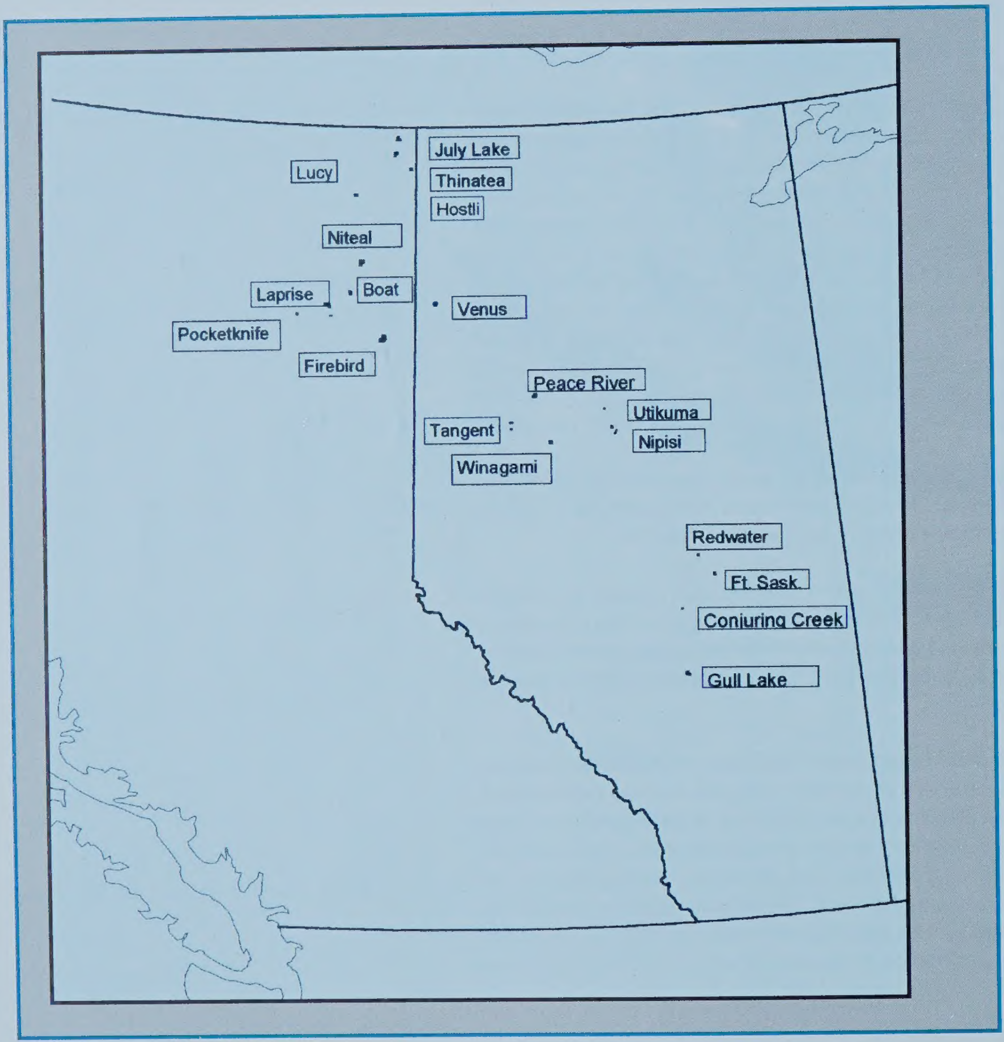
Our 1999 business plan includes the buying and selling of properties, promoting the drilling of our internally generated plays, and purchasing lands where we have drillable prospects. We will also attempt significant gains through a leveraged system of production purchases. In addition, your Company has very low overhead and a dedicated team of oil and gas professionals to draw upon to add value to the Corporation. The Company remains vigilant to the issues and concerns of the Y2K problem. We check with our suppliers and monitor our own systems to ensure minimal disruption to our business efforts.

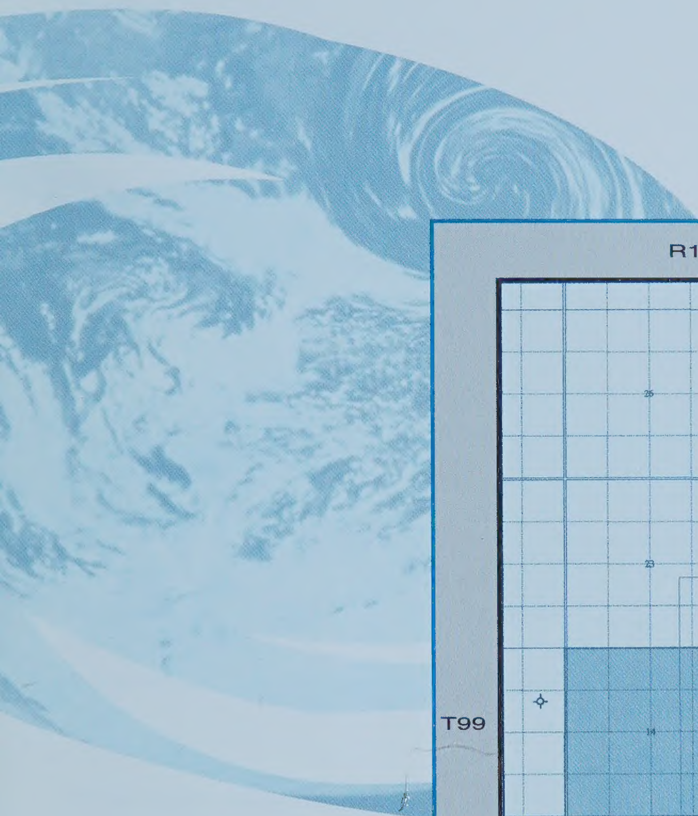
On behalf of the Board of Directors and Officers

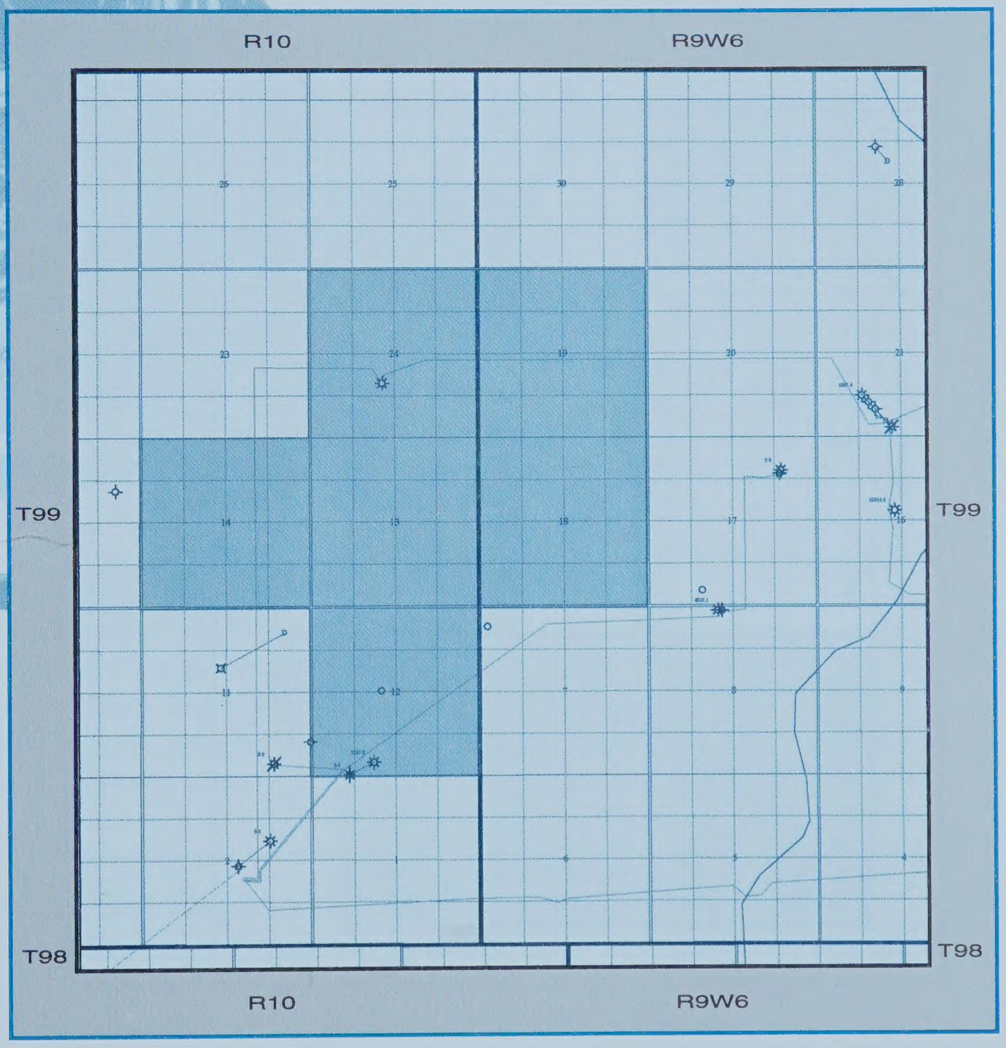
D Jon Axford

President

• endless energy 1998 annual report
• endless energy 1998 annual report
• endless energy 1998 annual report
• endless energy 1998 annual report
• endless energy 1998 annual report
• endless energy 1998 annual report
• endless energy 1998 annual report

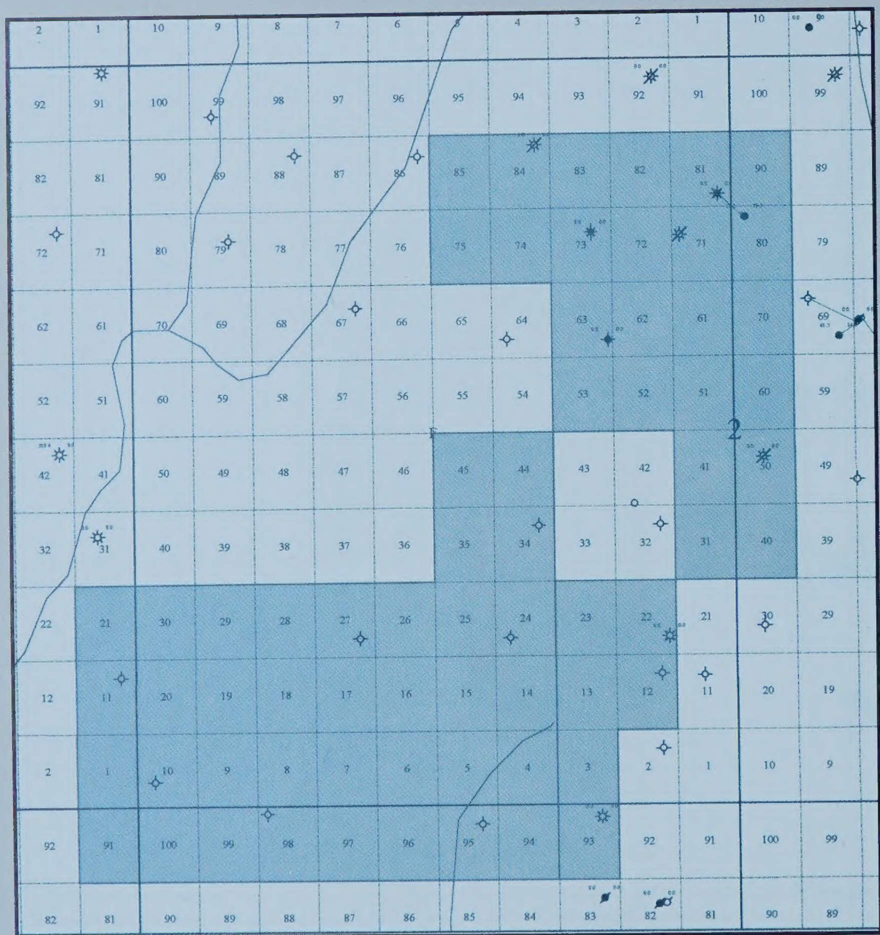

July Lake
Thinatea
Hostli
Lucy
Niteal
Laprise
Boat
Venus
Pocketknife
Firebird
Peace River
Utikuma
Nipisi
Tangent
Winagami
Redwater
Ft. Sask.
Conjuring Creek
Gull Lake





Location ○
Gas
Abandoned Oil
Abandoned Gas
Suspended
Dry & Abandoned
Suspended Gas
Directional ——D
Horizontal ——H

WELL LEGEND

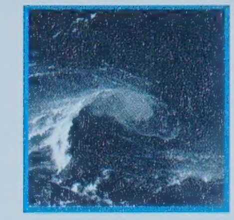


Map Center on: B-45-F/94-H-2

WELL LEGEND

- Location
- Gas
- Abandoned Oil
- Abandoned Gas
- Suspended
- Dry & Abandoned
- Suspended Gas
- Directional ——D

auditors' report



To the Shareholders of Endless Energy Corp.

We have audited the balance sheets of Endless Energy Corp. as at December 31, 1998 and 1997 and the statements of earnings and retained earnings and cash flows for the year ended December 31, 1998 and for the seven months ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and 1997 and the results of its operations and its cash flows for the year ended December 31, 1998 and for the seven months ended December 31, 1997 in accordance with generally accepted accounting principles.

Calgary, Alberta
March 16, 1999

HUDSON & COMPANY
Chartered Accountants

balance sheets

DECEMBER 31	1998	1997
ASSETS		
CURRENT		
Cash and short-term deposits	$ -	$ 433,756
Accounts receivable	196,743	9,845
Prepaid expenses	14,868	10,757
	211,611	454,358
Capital Assets (Note 3)	2,292,035	-
Other Asset (Note 4)	21,200	-
	$2,524,846	**$ 454,358**
LIABILITIES		
CURRENT		
Bank indebtedness (Note 5)	$ 554,429	$ -
Accounts payable and accrued liabilities (Note 6)	407,819	29,151
	962,248	29,151
Site Retoration	2,000	-
Deferred Income Taxes	200,000	-
	1,164,248	29,151
SHAREHOLDERS' EQUITY		
Share Capital (Note 7)	1,105,748	520,000
Retained Earnings (Deficit)	254,850	(94,793)
	1,360,598	425,207
	$2,524,846	**$ 454,358**

Commitments (Note 8)

APPROVED ON BEHALF OF THE BOARD:

"Donald W. Axford"______________________, Director

"Arne R. Nielsen"______________________, Director

statements of earnings and retained earnings

	Year ended ended December 31, 1998	Seven months ended December 31, 1997
REVENUE	**$1,046,695**	**$4,539**
EXPENSES		
Amortization and depletion	215,280	-
General and administrative (Schedule)	226,576	99,248
Interest and bank charges	51,609	84
Production costs	1,587	-
Site restoration	2,000	-
	497,052	99,332
Earnings (Loss) Before Income Taxes	549,643	(94,793)
Income Taxes		
Deferred	200,000	-
Net Earnings (Loss)	349,643	(94,793)
Retained Earnings (Deficit), beginning of year	(94,793)	-
Retained Earnings (Deficit), end of year	254,850	(94,793)
Earnings (Loss) Per Share (Note 9)		
• Basic	$ 0.078	$ (0.028)
• Fully diluted	0.072	-

statements of cash flows

	Year ended ended December 31, 1998	Seven months ended December 31, 1997
Cash Flows From Operating Activities		
Net earnings (loss)	$ 349,643	$ (94,793)
Items not affecting cash		
• Amortization and depletion of capital assets	209,980	-
• Amortization of other assets	5,300	-
• Deferred income taxes	200,000	-
• Site restoration	2,000	-
	766,923	(94,793)
Net change in non-cash working capital balances	187,659	8,549
Cash flows from (used in) operating activities	954,582	(86,244)
Cash Flows From Financing Activities		
Issuance of share capital	585,748	520,000
Cash Flows From Investing Activities		
Purchases of capital assets, net	(2,502,015)	-
Purchase of other asset	(26,500)	-
Cash flows (used in) investing activities	(2,528,515)	-
Net Increase (Decrease) in Cash	(988,185)	433,756
Cash, beginning of year	433,756	-
Cash (Bank Indebtedness), end of year	$(554,429)	$ 433,756
Cash Flow (Deficiency) Per Share (Note 9)		
• Basic	0.213	(0.025)
• Fully diluted	0.196	-

1. GENERAL

The company was incorporated under the Business Corporations Act (Alberta) on March 27, 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

Joint Venture Accounting

Substantially all of the company's petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the company's proportionate interest in such activities.

Capitalized Costs

The company follows the full cost method of accounting whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are initially capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-productive properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative expenses applicable to these activities. General and administrative expenses in the amount of $nil have been capitalized for the year ended December 31, 1998.

Amortization and Depletion

Amortization and depletion of petroleum and natural gas properties and equipment is provided for using the unit-of-production method based on estimated proven petroleum and natural gas reserves as determined by independent engineers.

Other capital assets are recorded at cost and are amortized using the following annual rates and methods:

Computer equipment	30%	Declining balance

Site Restoration

The estimated costs of future removal and site restoration of petroleum and natural gas properties are provided for on the unit-of-production method. The annual charge is made to site restoration expense and actual site restoration expenses will be charged to the accumulated future site restoration account as incurred.

Ceiling Test

Each period the company applies a ceiling test to capitalized costs to ensure that the net carrying value of petroleum and natural gas properties does not exceed the estimated value of future net revenues (calculated using current prices) from the production of proven reserves, less related general and administrative expenses, financing costs, estimated future site restoration costs and income taxes. Any impairment in value is charged to operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Taxes

Deferred income taxes arise from timing differences in recognizing earnings and expenses for accounting purposes and income tax purposes. The income taxes will be payable in future years when taxable earnings exceed earnings for accounting purposes.

Measurement Uncertainty

The amounts recorded for amortization and depletion of the petroleum and natural gas properties and the estimated costs of future renewal and site restoration are based on estimates of reserves and future costs. By their nature, these estimates, and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future years could be material.

Financial Instruments

The financial instruments of the company consist mainly of accounts receivable, accounts payable, and bank indebtedness. As at December 31, 1998 there are no significant differences between the carrying amounts of these financial instruments and their estimated market values.

3. CAPITAL ASSETS

			December 31,	
			1998	1997
	Cost	Accumulated Amortization and Depletion	Net Book Value	
Petroleum and natural gas properties and equipment	$ 2,496,983	$ 209,225	$ 2,287,758	$
Computer equipment	5,032	755	4,277	-
	$ 2,502,015	$ 209,980	$ 2,292,035	$ -

4. OTHER ASSET

The company paid $26,500 to purchase the name Endless Energy Corp. This cost is being amortized on a straight-line basis over five years.

5. BANK INDEBTEDNESS

Revolving demand production loan with a borrowing base up to $1,000,000, collateralized by a $1,000,000 fixed charge petroleum and natural gas debenture containing a first fixed charge on petroleum and natural gas properties, general security agreement with floating charge on petroleum and natural gas assets, bearing interest at CIBC prime + 0.50 per annum.

6.RELATED PARTY TRANSACTIONS

During the year the company paid $68,497 to a law firm in which an officer of the company is a partner. Of these payments $37,505 (1997 - $12,621) has been expensed and $30,992 has been netted against share capital. At December 31, 1998 $6,514 was owing to the law firm (1997 - $nil).

Prior to September, 1998 the company received free office rent from a company owned by a director.

7. SHARE CAPITAL

Authorized

- Unlimited number of common voting shares
- Unlimited number of first preferred shares issuable in series

Issued common shares

	1998		1997	
	Number of Shares	Consideration	Number of Shares	Consideration
Balance at beginning of year	4,100,000	$ 520,000	-	$ -
Issuance of common shares	893,824	616,740	4,100,000	520,000
Issuance costs	-	(30,992)	-	-
Balance at end of year	4,993,824	$1,105,748	4,100,000	$ 520,000

3,000,000 common shares are held in escrow and the first release shall not occur without the written consent of the Executive Director of the Alberta Securities Commission.

The company adopted a common share option plan for its directors, officers, and key employees and has granted options to purchase 400,000 common shares at $0.20 per share. These options expire on May 21, 2002. The common share option plan is subject to regulatory approval.

8. COMMITMENTS

The minimum rentals payable under an office rent lease, exclusive of certain operating costs for which the company is responsible, are as follows:

- 1999 - $2,400

This lease expired on February 28, 1999 and the company is presently paying monthly rent of $1,200 exclusive of certain operating costs. The company subleases a portion of this office space and receives $600 per month exclusive of certain operating costs and GST.

The minimum rentals payable under an office rental lease, exclusive of certain operating costs for which the company is responsible, are as follows:

- 1999 - $10,384
- 2000 - $ 1,731

This lease expires on February 28, 2000.

The minimum rentals payable under an office rental lease, exclusive of certain operating costs for which the company is responsible, are as follows:

- 1999 - $4,869
- 2000 - $4,869
- 2001 - $ 811

This lease expires on February 28, 2001.

The company subleases a portion of this office space to a company owned by a director and receives $203 per month exclusive of certain operating costs and GST.

9. EARNINGS AND CASH FLOW PER SHARE

Basic earnings (loss) per common share and cash flow (deficiency) per common share have been calculated based upon the weighted average number of shares outstanding during the year of **4,479,569 (1997 - 3,414,666).**

Fully diluted earnings (loss) per common share and cash flow (deficiency) per common share have been calculated based upon the weighted average number of shares outstanding during the year of **4,879,569.**

Fully diluted earnings per share for 1997 have not been reflected as the effect would be anti-dilutive.

10. MAJOR TRANSACTION

On January 16, 1998 the company purchased certain oil and gas assets in Alberta and British Columbia and entered into an agreement with another company who agreed to fund 100% of the purchase price of these oil and gas assets. Under the terms of the funding agreement, Endless Energy Corp. agreed to hold 100% of the oil and gas assets in trust for the other company and was granted an option to acquire, on or before March 31, 1998, an approximate 60% divided interest in the oil and gas assets for $2,208,800. On April 1,1998 the company exercised this option by issuing common shares, cash and incurring bank debt. The exercise of this option constitutes the company's major transaction as defined in the Alberta Securities Commission Policy 4.11.

11. INCOME TAXES

The effective income tax rate based on accounting earnings (loss) differs from combined Federal and Provincial tax rates. The main differences are summarized as follows:

	1998	1997
Earnings (loss) before income taxes	$ 549,643	$ (94,793)
Corporate income tax rate	44.6%	44.6%
Computed income tax (recovery)	245,141	(42,278)
Increase (decrease) resulting from:		
Share issuance costs	-	23,192
Non-deductible amortization and depletion	96,015	-
Non-deductible meals	1,178	-
Taxable capital gain	62,313	-
Capital cost allowance	(26,309)	-
Canadian oil and gas property expenses	(45,954)	-
Share issuance costs deduction	(7,440)	(2,882)
Disposal of oil and gas properties and equipment	(331,897)	-
Cumulative eligible cost	(620)	-
Taxable loss not recognized	7,573	21,968
Actual income tax provision	$ -	$ -

11. INCOME TAXES

The company has the following income tax loss carryforwards available to apply against future years' taxable income:

Expiry Date	Amount
2004	$ 48,834
2005	16,980
	$ 65,814

At December 31, 1998 the company had the following estimated balances available to apply against future years' taxable income:

Undepreciated capital cost	$ 411,904
Cumulative eligible capital	18,494
Canadian exploration expenses	442,899
Canadian oil and gas property expenses	927,313

12. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

13. COMPARATIVE FIGURES

Certain of the 1997 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1998.

schedule of general and administrative expenses

	Year ended December 31, 1998	Seven months ended December 31, 1997
Advertising and promotion	$ 5,263	$ -
Consulting	11,255	29,373
Data service	21,873	-
Engineering fees	12,978	-
Filing and listing fees	15,038	7,851
Insurance	5,170	-
Licenses and permits	10,000	-
Office	19,151	1,178
Professional fees	57,895	35,846
Rent	4,660	-
Salaries and wages	56,010	-
Supplies	-	5,000
Telephone	7,283	-
Underwriting fees	-	20,000
	$ 226,576	$ 99,248

corporate directors and officers

Directors

Donald W. Axford *
D. Jon Axford *
Byron J. Seaman *
Arne R. Nielsen
Chairman of the Board

Officers

D. Jon Axford
President and Director
Larry S. Martin
Chief Financial Officer
William H. Smith
Corporate Secretary

*member of the Audit Committee

corporate information

Auditors

Hudson & Company
Chartered Accountants
600, 1015 - 4th Street SW
Calgary, Alberta
T2R 1J4

• endless energy 1998 annual report

Bankers

Canadian Imperial Bank of Commerce
Main Branch
309 - 8th Avenue SW
Calgary, Alberta
T2P 1C6

• endless energy 1998 annual report

Registrar & Transfer Agent

Montreal Trust
Company of Canada
6th Floor, Western Gas Tower
530 - 8th Avenue SW
Calgary, Alberta
T2P 3S8

• endless energy 1998 annual report

Head Office

Endless Energy Corporation
901, 304 - 8th Avenue SW
Calgary, Alberta
T2P 1C2
Telephone: (403) 263-4292
Facsimile: (403) 263-0477
endlessenergy.ab.ca

• endless energy 1998 annual report

For Further Information

D. Jon Axford
President and Director
Telephone: (403) 263-4292
Facsimile: (403) 263-0477
Email: jon@endlessenergy.ab.ca

• endless energy 1998 annual report

Annual General Meeting

To Be Held 10 am, July 2, 1999
Cardium Room, Petroleum Club

Common shares listed under symbol "EEC" for trading on Alberta Stock Exchange

• endless energy 1998 annual report

Endless Energy Corporation

901, 304-8th Avenue SW. Calgary, Alberta T2P 1C2
Phone: (403) 263-4292 Facsimile: (403) 263-0477
jon@endlessenergy.ab.ca